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Divergent Trends of Transformation to Democracy and Market Economy: The Commonwealth of Independent States and Mongolia

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Introduction

This report provides an overview on the state, trajectory and management of the transformation processes in the 13 CIS countries plus Mongolia. It is based on the results of the Bertelsmann Transformation Index (BTI) and the underlying country assessments which analyze each individual country in detail.

While post-communist Mongolia is generally referred to as an unexpected “success” of transformation, the Commonwealth of Independent States (CIS) remains a politically volatile region. This said two opposing trends of political development have characterized the region in the past three years (2003-2005). While democratic transformation has exhausted itself in most of the countries and the ruling regimes are trying ever harder to stem democratic development, in two states—Georgia and Ukraine—social uprisings led to regime change with some potential for stable democracy. The “revolutions” in these two states, like the unrest in Uzbekistan and mass protests in Kyrgyzstan, signal that political regimes in the CIS remain unstable. Political, ethno-

religious, and social tensions are latent or even virulent in most area countries. Thus, further regime crises as in Georgia and the Ukraine cannot be ruled out, especially since the “Revolution of the Roses” in Georgia and Ukraine’s “Orange Revolution” impact other societies in the region and cause concerns among autocratic leaders in the region.

Even though these two cases differ in crucial respects, they lend themselves to observations that capture the region’s broader trends. Regime change in both countries was initiated by clumsy manipulated elections. While domestic support for Georgia’s President Shevardnadze had already dramatically eroded prior to the elections, the ruling clique in the Ukraine enjoyed strong support in the industrialized East of the country, and therefore secession briefly appeared possible. In both Georgia and Ukraine, the population resisted being deprived of their fundamental democratic rights. Their protests also expressed massive frustration over corruption, social inequity and human rights violations. It was skillfully-led mass movements—and not subversive agents controlled by the West—that brought about change and prevented the outbreak of mass-violence.

On the other hand, Russia is regressing more and more from the gray zone of a “defective democracy” into some form of neo-authoritarian order. Freedom of the press, plurality of the media and freedom of expression have withered due to state intervention. The Khodorkovsky trial demonstrates the eroding status of the rule of law and judicial independence. Although the Putin-government is suggesting that a political solution to the war in Chechnya is at hand, an end to the violence appears unlikely in foreseeable future.

The autocracies of Central Asia have felt the shock waves of the “Revolution of the Roses” especially acutely. Apparently, Kyrgyzstan was most affected. However, the end of the regime of President Akayev differed fundamentally from the breakdown of the ancient regimes in Georgia and Ukraine. The mass protests in Kyrgyzstan were undisciplined, spontaneous, and the fractured opposition movement lacked a common strategy about how the very aim of the protests. It remains to be seen in which direction the Kyrgyz’s path of transformation will lead the country lead and whether, in retrospect, the protests of 2005 have really marked the beginning of a meaningful transition to democracy. Furthermore, upcoming elections in other area countries such as Azerbaijan will demonstrate whether competitive autocracies in CIS have a real chance to stand against pressure from domestic opposition.

Aside from Georgia, the Ukraine and Kyrgyzstan, a trend toward stronger authoritarianism is apparent in Central Asia. This is especially true for Uzbekistan, where religious radicalization, deepening unrest and the ruthless suppression of opposition by the government of President Karimov’s climaxed in the large-scale use of violence against protestors in Andijan in May 2005.

The divergent trends in the region continue in the economic dimension of transformation. While the budget deficit rose substantially in those countries that are poor in natural resources, which further restricted their governments’ scope of action for reforms, Russia and Kazakhstan exploited the petroleum boom to introduce structural reforms and invest in special funds for harder times. With the exception of these two countries, economic growth in this region has yet to affect the level of socioeconomic development. While the quality of human life has not dramatically deteriorated in recent years, the divide between rich and poor is widening in most societies. Simultaneously, both income inequality and unemployment are rising, particularly in central Asia with the exception of Kazakhstan.

Economic growth is based for the most part on favorable commodity prices, and less so on improved institutional frameworks or effective structural measures, which have been seriously pursued only in the Ukraine, Armenia, Georgia, Kazakhstan and Russia. This obscures a fundamental obstacle to solid and stable growth rates in the region: the inadequate diversification of most economies, their reliance on natural resources and the production of consumer goods, and their attendant dependence on the positive alignment of external parameters such as world

market prices for petroleum, natural gas and other raw materials. Moreover, even the countries that are structurally advanced and resource-rich face serious challenges: reforming inefficient administrations, fighting rampant corruption, addressing the degradation of legal standards and administrative credibility, modernizing an undercapitalized and poorly differentiated banking sector, and rebuilding crumbling social, educational and health systems which are exacerbating social exclusion rather than contributing to the sustainability of economic development in the region.

Democratic Development

Notwithstanding recent gains in democratization in Georgia and Ukraine the CIS remains one of the least democratic regions in the world. Aside from Georgia and the Ukraine, the region has made no substantial progress toward democratization. In most states, providing political stability and the preservation of power take priority over democratic liberalization. Consequently, significant deficiencies of democratic transformation such as weak stateness, poor rule of law, weak mechanism of political and social integration, remain crucial problems of political development in the region.

Five political regimes in the CIS and Central Asia can be characterized as defective democracies: Armenia, Georgia, the Ukraine, Russia, Moldova and Mongolia. Within this group, Georgia and Ukraine now have a real chance to advance democratic consolidation. Mongolia is following this path slowly but steadily, but will continue to rely on massive external support due to the country's economic vulnerability. Putin's "guided democracy" is increasingly taking on the contours of an authoritarian system. In the region's consolidated autocracies, too, there is an upsurge in authoritarian tendencies to control and exclude the opposition. Such tactics are used with rising frequency, in order to prevent contagion effects of the democratic revolutions in Georgia and the Ukraine.

Table 1: Quality of Democracy in the CIS/Mongolia

Defective Democracies	Highly Defective Democracies	Moderate Autocracies	Autocracies
Mongolia	Russia	Kazakhstan	Belarus
Ukraine	Moldova	Kyrgyzstan	Azerbaijan
Armenia			Tajikistan
Georgia			Uzbekistan
			Turkmenistan

Note: The table follows the BTI data. The countries are listed according to their democracy scores.

In many area countries, the state's monopoly on the use of force does not cover the entire national territory. States that are especially afflicted by ongoing secession conflicts are Georgia (South Ossetia, Abkhazia, Adzharia), Armenia and Azerbaijan (Nagorno Karabakh), Moldova (Transnistria) and Russia (Chechnya, but also increasingly in the entire Northern Caucasus). In Kyrgyzstan, the Akajev regime collapsed rapidly in March 2005 after nationwide protests. However, most observers were surprised at the speed with which the government lost control of the situation. This suggests that the erosion of the state's monopoly on the use of force had actually begun much earlier and the regime was far more crippled than had been assumed by

most external experts. After further erosion this year, consolidating the state's monopoly on the use of force is one of the most crucial tasks of the new government.

Following President Saakashvili declaration, that his highest priority was restoring territorial integrity by reintegrating breakaway regions into Georgia the nation, the peaceful end to Abashidze's rule in Abkhazia raised hopes that the separatist conflicts with South Ossetia and Abkhazia may also be settled. However, up to now these hopes have been dashed. Rather, the Georgian leadership's efforts to stem smuggling and crime in the secessionist regions even led to a brief escalation of violence in South Ossetia. The close relationship between efforts to restore territorial integrity and the drive toward democratic consolidation of "core Georgia" by curbing corruption and regulating the informal economy speaks against a quick fix of these conflicts, as does the deeply-rooted mistrust against Georgia among the populations and leaders in the separatist republics.

State- and nation-building continue to progress slowly in Tajikistan following its civil war (1992 to 1997). However, as in most other states of Central Asia and the Caucasus, the regionalist and particularistic clans and oligarchs continue to subvert the authority of the central government. Public administrations often do not function efficiently, and their ability to perform well is restricted by over-bureaucratization, endemic corruption, insufficient funding, and politicization of the bureaucracy by opposing political factions.

Elections are held regularly in all countries. However, during the review period the only elections that satisfied international standards and could be classified as largely free and fair, according to the reports of international election monitors, were those in Mongolia, Georgia, Moldova, and the second presidential run-off in Ukraine.

It is surely remarkable that in a region where especially the hybrid regimes have virtually perfected ever more subtle forms of direct and indirect election manipulation in recent years, fraudulent elections became the catalyst for peaceful regime changes. The regime changes in Georgia, Kyrgyzstan and Ukraine accordingly provoked deep uncertainty among the autocratic rulers of the region's other states. In Central Asia, where a series of elections took place in 2004 and 2005, power elites reacted fiercely to a potential snowball effect of the events in Georgia and the Ukraine. For example, Uzbek and Kazakh authorities introduced stiff restrictions on international non-governmental organizations and discredited the opposition by portraying it as a fifth column of Western geopolitical expansion in the post-Soviet area.

At the same time, it became clear that protest against manipulated elections alone would not suffice a new wave of democratization in the CIS. Rather, structural conditions—which vary widely in the region—would tip the scales. The decisive factors in peaceful regime change are the extent to which people can be mobilized, the vigor of civil society, the degree to which the opposition is organized, and the unity of the ruling elite. This is strongly underscored by the fact that the elections in Tajikistan, Azerbaijan and Kazakhstan were not accompanied by major protests, irrespective of the degree of manipulation.

In most of the countries, freedom of association and assembly for civic groups and NGOs is constitutionally guaranteed. However, the state often directly or indirectly obstructs the formation and work of various groups and political groups in particular. The regimes that most strongly repress groups critical of the government are those in Turkmenistan and Uzbekistan. In Tajikistan, Belarus and Kazakhstan, too, freedom of assembly is systematically violated and the founding of oppositional groups forbidden. In many countries it is not weak legal protections but informally applied pressure that is the basis for state obstruction of civic groups. Disobliging NGOs must reckon with extensive controls by state authorities (tax audits, confiscation of documents, sanctions or penalties).

In nearly the entire region, state control and intimidation of the media encroach upon freedom of opinion and freedom of the press to an alarming degree. Economic and political pressure on private media and the arbitrary issuance or revocation of state licenses for media companies have an extremely negative impact on the plurality of the media landscape. Time and again, journalists have been censored and physically attacked. The exceptions to this are Mongolia and—since their peaceful revolutions—Ukraine and Georgia, where coverage of the protests decisively contributed to the opposition's victory. In both of these states, reform of the press laws is necessary in order to ensure a lasting trend toward greater freedom of the press and plurality of the media.

Only in Georgia, Ukraine and Mongolia is the rule of law strengthened, albeit with limitations. The region's record of granting civil rights does look somewhat more positive, on balance. However, only in Mongolia they are fully guaranteed. In Ukraine and Georgia, there is at least an opportunity and the political will to lift existing restrictions. In most of the CIS states, the presidents' political hegemony significantly limits the separation of powers, even where it is guaranteed by the constitution. Completely dependent on the president, governments often only have limited accountability to the parliament. Horizontal accountability of the executive is further restricted where the ruling party enjoys a strong majority in parliament, as in Russia, Georgia and Moldova. Since most judges are likewise appointed by the president, the judiciary is largely subordinated to the executive in practice. Judicial authority can fulfill its corrective function only to a very limited extent, because it is often subordinated to political authorities or powerfully constrained by functional deficiencies (corruption, insufficient funding and inadequate training). In Georgia, recent constitutional changes have strengthened the position of the government, while in the Ukraine, political reforms that were already decided by the previous government strengthen the position of the parliament vis-à-vis the executive branch.

Corruption and abuse of office are major problem in the entire region. Governments' anti-corruption rhetoric often serves to eliminate political opponents. In Georgia, President Saakashvili has declared the fight against corruption to be the top priority of his government. So far, resolute action against cases of corruption and salary raises for public servants has begun to bring results, although even here, state authorities are sometimes accused of applying the law selectively for political reasons.

In most countries, political parties, interest groups and civic organizations do not fulfill the function of promoting political and social integration, or do so only in a very limited way. A stable party system anchored in society with the broad consent of the people has been unable to emerge anywhere except in Armenia and Mongolia. As a result, the level of party fragmentation and electoral volatility remain high. Organizations of interest intermediation and civic organizations have also scarcely exerted any political influence, so far. In Georgia and Ukraine, NGOs succeeded in channeling the people's social discontent and effecting peaceful change. However, since the "Revolution of the Roses" many of the most active members of civil society in Georgia have joined the government, which has led to a veritable brain drain among the NGOs.

In the states for which opinion poll results are available, public support for democracy is high, in principle. However, when asked about the importance of democratic principles, central elements of democracy—such as elections, freedom of opinion or participation—regularly come in last.

Economic Development

Not a single state in this region has a fully functional, socially responsible market economy. All in all, only moderate progress can be seen in market economy transformation. Ukraine, Kazakhstan, Armenia and Russia are the regional frontrunners in the BTI 2006. Their comparatively high growth rates continued during the study period; but especially in the resource-rich countries, this

is due to favorable global economic conditions. Their high growth rates must not obscure the fact that most economies started at an extremely low level.

In average, economic growth rates in the past couple of years were very high in global comparison: in the CIS states (without Mongolia) it reached 7.8 in 2004, the highest level since 2000. Growth was especially strong in Azerbaijan, Kazakhstan, Ukraine and Russia. The region profited from favorable global economic conditions and, in the case of the resource-rich states, from sustained high commodity prices.

The greatest risks for the region's resource-rich countries lie precisely in their dependence on natural resources. Although these countries have been able to book substantial budget surpluses because of sustained high commodity prices, they remain vulnerable due to the price fluctuations that typify the raw materials sector. In addition, their resources richness hampers the willingness to implement necessary structural reforms. Commodity prices affect the resource-poor countries, as well. They suffer from high oil prices; in addition, most of them are highly dependent on Russia as an export market and thus on a rising Russian demand for exports. Only the expansion and diversification of regional trade could reduce these vulnerabilities in the long run.

In those countries where fundamental market reforms have yet to be undertaken—Belarus, Turkmenistan and Uzbekistan—the macroeconomic indicators also point to sustained economic growth. The credibility of official statistics remains extremely questionable in these states, however, so that international financial organizations estimate real growth to be much weaker. Especially in these states, the sustainability of growth remains doubtful, too. Turkmenistan, and to a lesser extent Uzbekistan, benefit from their richness in natural resources. Belarus has a heavily subsidized consumer goods industry.

It is typical for the specific economic systems of the CIS region, that networks and cooperative relationships often carry on old power structures or—as in the Caucasus and Central Asia—arise from clan relationships. On the one hand, they have been able to avert the often-predicted total collapse. On the other hand, institutional stalemates, particularistic interests, and short-term profit-seeking have long blocked overdue modernization and thus thwarted a self-supporting economic upturn. The omnipresent, rampant corruption is an enormous barrier to the implementation of reforms.

Some countries have used their sustained economic growth to fight rampant poverty (Russia, Mongolia). However, in large parts of the region growth has yet to make a sufficient impact on socioeconomic conditions. The social services that remain available today are scarcely adequate to cover basic needs. Education and science, which were once outstanding, suffer from drastic lack of funding, as does the health system. Access to education and skilled medical care is increasingly controlled by money. In hardly any other region of the world has HIV spread as quickly as in the CIS. Money for HIV education campaigns is lacking, but so is a political understanding of their necessity. The erosion of the public education sector continues to raise alarms. The once-high educational potential is dwindling throughout the region due to a large exodus of well-trained skilled workers and chronic crisis in all areas of education.

In all of the countries, the Human Development Index has hardly changed since 1995. However, the gap between rich and poor is widening everywhere. Chances for advancement depend on belonging to networks. In Central Asia, ancestry and clan membership increasingly determine access to social and economic opportunity. Poverty is spreading, especially in rural areas, and is increasingly taking on a gender component.

Transformation Management

Transformation management in the region as a whole has not improved significantly during the period under review (2003-2005). The region's overall scores do not indicate a regional shift toward democracy and a market economy. Transformation management is stagnating at a relatively low level. Transformation efforts remain directed primarily at the economy. However, successes in this area are often offset by a deteriorating or continually weak commitment to the democratization process.

Table 2: Quality of Transformation Management

Successful management	Successful management with weaknesses	Management with moderate success	Management with little success	Failed or inexistent management
	Mongolia	Armenia	Kyrgyzstan	Belarus
	Georgia	Ukraine	Kazakhstan	Uzbekistan
		Tajikistan	Russia	Turkmenistan
			Moldova	
			Azerbaijan	

The table follows the BTI data. The countries are listed according to their scores in the Management Index.

However, a closer look at the individual countries reveals new dynamics. While Georgia may be the region's shooting star in transformation management, Russia represents its opposite. Generally weak and significantly weaker in resource efficiency and consensus-building, Russia has suffered a considerable downward slide. Kazakhstan, Kyrgyzstan and Tajikistan show slight improvements with dramatic weaknesses in democratization. With a clear focus on economic concerns, Kazakhstan has demonstrated improved steering capability, resource efficiency and consensus-building.

Commitment to international cooperation is significantly above the regional average in Kyrgyzstan and Tajikistan. However, with low levels of development and lacking resources, it must be noted that both countries are dependent on international support.

Apart from structural difficulties such as problems of stateness (above all in Azerbaijan, Georgia, Moldova, Kyrgyzstan and Tajikistan), these countries are burdened as well by very weak traditions of civil society. Tajikistan has the highest level of difficulty. Political leadership in steering the country toward a market economy and democracy is structurally constrained due to a very low level of development, poverty of resources, a disintegrating infrastructure and unfavorable geographical and topographical conditions. Society is as divided as the country's topography and regionalist currents pose an obstacle to state coherence. Seven years after the civil war's end (1992-1998), Tajikistan has yet to establish stable institutions for a peaceful settlement of conflicts between regional, religious and secular groups.

Steering Capability

Bad performance in steering capability is symptomatic of the region's overall performance in the management index. The entire region, with the exception of Georgia and Russia, is stagnating at a low level: Georgia and its dynamic rise contrasts with Russia's downward slide. Belarus, Uzbekistan and Turkmenistan consistently demonstrate the weakest performance.

Georgia shows significant improvements in all sub-indicators, but particularly in setting strategic priorities. The Saakashvili government succeeded in rapidly consolidating its governance capacity. It not only formulated an ambitious reform agenda, but also undertook decisive steps to implement them. For example, the autonomous Republic of Abkhazia, driven to a breakaway republic by President Abashidze, was economically reintegrated after Abashidze's peaceful removal, which had a positive impact on national tax revenues. Despite democratic shortcomings in their implementation, these measures were consistent with the goals of democratic consolidation and increased efficiency of government structures. Nevertheless, Georgia has yet to formulate a convincing strategy for economic development. Armenia and Ukraine's relatively good scores could have been higher if their political leaders had served less short-term interests, especially those of so-called oligarchic and informal clan structures.

With a generally moderate score for 'flexibility, learning and policy innovation,' Russia lies significantly below the regional average. Russia's executive has especially demonstrated its capacity for learning in organizing political decision-making processes at the expenses of democratic quality.

Resource Efficiency

This management category is the region's weakest. This can be attributed in large part to the lack of commitment in the region to fighting endemic corruption. Indeed, of all the sub-indicators, the fight against corruption is the region's absolute weak point. Only Georgia and Belarus merit reasonably good scores here. In Belarus, curbing corruption remains a pillar of legitimacy for the regime of President Lukashenko, though it is increasingly used as a weapon wielded against political opponents. Georgia's new government also faces similar criticism. Based on a three-pronged strategy of penalization, incentives to legalize economic activities, and wage increases to curb bribe acceptance among state employees, the government's anti-corruption policy has met with broad success.

In addition to deficiencies in bureaucratic efficiency and curbing corruption—which are symptomatic of the region—Russia's weaker performance as compared to the BTI 2003 can be attributed to a deep division between politicians with a secret service background and liberal reformers increasingly marginalized by the former. In general, both groups share the president's objectives. However, the rifts between them are massive when deciding how to go about achieving these goals.

Consensus-Building

Mongolia and Georgia, with Armenia and Ukraine following, received the highest scores in the core elements of this category. These core elements include building consensus over long-term democratic and economic development, resolving political cleavages and promoting social trust. Mongolia continues to illustrate that economically weak countries in the region can enjoy a general, stable consensus on democracy and market economy. In Georgia, the stability provided by widespread consensus currently enjoyed by President Saakashvili and his government might be not permanent. Should Georgia suffer setbacks in economic development and political integration, this consensus could crumble.

Political management in most of the region's countries reveals the commitment to market economy and especially democratic reform as mere rhetoric. Georgia and—since the end of

2004—Ukraine prove exceptions. Similar to fighting corruption, the regional average scores for building social trust and the participatory involvement of civil society are also weak.

Throughout the region, government relations with civil society groups are characterized by distrust. Even in Georgia, where the new government was made up largely of recruits from NGOs, relations between civil society and the state have deteriorated somewhat. Kyrgyzstan performed relatively well, as its civil society organizations—which are relatively active by Central Asian standards—have been included in the political process, particularly at the local level through hearings. In Uzbekistan by contrast, potential purveyors of social trust such as traditional neighborhood communities (“mahallas”), have been instrumentalized for state purposes. Turkmenistan’s scores are low almost across the board. President Niyazov’s clientistic-paternalist rule exacerbates regionalization and suppresses any political participation beyond the president’s tolerance.

International Cooperation

In general, international cooperation is afforded relatively high importance in the region. All the countries are more or less tightly integrated within the system of international organizations. However, there are considerable differences in their orientation and motivation regarding international cooperation. Overall within the region, the focus on international cooperation is driven by economic concerns. Armenia, Georgia, Mongolia and recently Ukraine use the tools of international relations to advance toward the twin goals of democracy and a market economy. However, on the whole, political leaders in the rest of the region have not employed these tools to promote democratization and have used them only marginally to implement market reforms. Consequently, relations with international forums and institutions focused on economic concerns fare better.

By contrast, relations between most of the region’s state leaders and institutions such as the Organization for Security and Cooperation in Europe (OSCE) are tense. Since the “Rose Revolution”, skepticism of international NGOs has also increased. Active in the “Rose Revolution”, the Soros Foundation and its affiliated Open Society Institute have come under scrutiny in the countries where they operate or will shortly be obliged to discontinue their work (Kazakhstan), if they have not already been forced to shut down their national agencies (Uzbekistan).

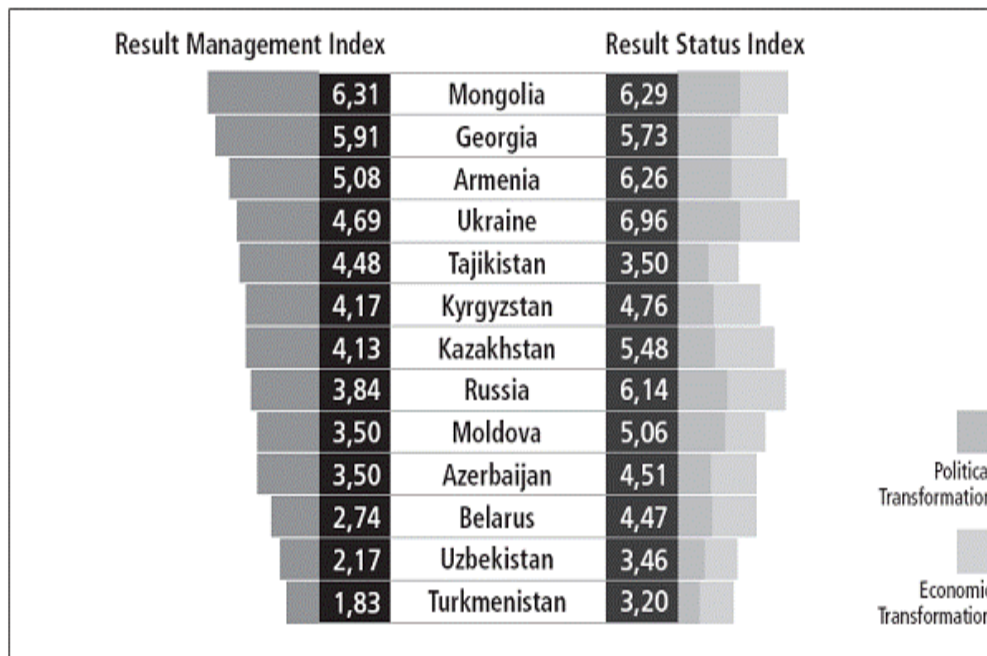
As a rule, the region’s economically weak countries receive higher scores here because they are utterly dependent on international assistance. This assistance is used in part for reform processes, particularly in Georgia, Mongolia, Tajikistan, Armenia, Kyrgyzstan and Moldova. The first four aforementioned countries and Ukraine are considered the most reliable partners. Large and resource-rich, Russia and Kazakhstan act from a position of perceived strength on the international stage, present themselves as reliable partners in economic contexts, manage without support from international financial institutions such as the World Bank and IMF, and reject criticism of their human rights violations, democratic deficits and weak rule of law as intolerable interference. Russia continues with great effort to maintain its role as hegemonic power in the region. Yet its influence is on the decline, as the revolutions in Georgia and Ukraine and the end of the Akayev era in Kyrgyzstan suggest.

In spite of numerous initiatives and efforts for a revival, regional and multilateral cooperation are still not in high gear or are driven only by the regional power’s interests. For example, the most effective form of multilateral cooperation at present, the Shanghai Cooperation Organization (SCO), is a product of Russian and Chinese initiative.

Conclusion

The dynamics of development mentioned may be sustained through the next period to be reviewed. Georgia and Ukraine have seized the opportunity to begin a new era. The new leadership in both countries have formulated ambitious reform agendas; their implementation will soon become the measure of the leaders' performance. The population's patience will depend primarily on the fight against corruption, appreciable growth and—in the case of Georgia—the integration of breakaway regions.

Results of the Bertelsmann Transformation Index 2006 for CIS and Mongolia



The "color" revolutions have already cast their shadow on upcoming elections to be held from 2006 to 2008. In Russia, much jockeying for the position of President Putin's successor is anticipated—if Putin complies with the constitution's term limit. Presidential elections are to be held in Armenia, Azerbaijan, Belarus, Kazakhstan, Tajikistan and Uzbekistan: these elections will show whether these countries can improve upon their more or less poor reputation in holding democratic elections, or if the series of revolutions following electoral fraud will continue. It appears unlikely at the moment that a peaceful revolution in Uzbekistan will bring an end to the Karimov regime.

In the economic sector, the resource-rich countries will have to prepare for a weakening of the boom in case of falling prices on world markets. This could reveal the extent to which the region's strong economies are structurally prepared to endure crises. For the economically weaker countries, the challenges of attracting investment to create jobs and to increase their capacity for action so as to maintain infrastructure, education and health care will continue.

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